



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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September 13, 2005

TO: Governor's Council of Economic Advisors

FROM: ChangMook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: REVISED ECONOMIC FORECAST

The preliminary economic forecast has been revised since its initial release on August 29, 2005. The new forecast differs from the initial preliminary forecast in two ways. First, it is based on Global Insight's September Control forecast which incorporates their assumptions concerning Katrina impacts as well as other changes since the August forecast was released. Though the near term oil prices were much higher in the September Control forecast than in the August Control, they also dropped much faster. By 2007 there was no difference in oil prices between the September and August Control forecasts. The other change we made was to re-solve the national model with higher oil prices derived from the NYMEX futures prices as of September 9, 2005. Unlike the September Control forecast, the NYMEX futures prices remain well above \$60 through 2007. The main impact of these changes was to raise inflation and lower real growth as shown in the attached table.

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Attachment

Revisions to the Preliminary Economic Forecast

	<u>2005Q2</u>	<u>2005Q3</u>	<u>2005Q4</u>	<u>2006Q1</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
West Texas Intermediate*							
September Higher Oil	53.1	63.6	64.8	66.2	57.8	66.1	64.3
August Preliminary	53.1	58.9	58.0	58.0	55.0	55.1	49.0
Difference	0.0	4.7	6.8	8.2	2.9	11.0	15.3
Implicit Price Deflator, Percent change							
September Higher Oil	3.19	4.10	3.14	2.19	2.88	2.50	2.22
August Preliminary	3.33	2.62	1.97	2.09	2.65	2.13	1.88
Difference	-0.14	1.48	1.17	0.10	0.23	0.37	0.33
Implicit Price Deflator (Core), Percent change							
September Higher Oil	1.59	1.49	2.38	2.47	2.00	2.30	2.50
August Preliminary	1.76	1.71	2.04	2.27	2.04	2.14	2.31
Difference	-0.17	-0.22	0.34	0.20	-0.04	0.16	0.19
Washington Payroll Employment, Percent change							
September Higher Oil	2.16	3.21	1.50	2.18	2.79	2.19	2.01
August Preliminary	2.16	3.21	2.32	2.47	2.84	2.39	2.15
Difference	0.00	0.00	-0.81	-0.29	-0.05	-0.21	-0.14
Washington Real Personal Income, Percent change							
September Higher Oil	5.22	7.33	1.24	4.24	1.03	4.86	4.03
August Preliminary	4.54	10.31	0.95	4.90	1.24	5.08	4.42
Difference	0.68	-2.98	0.29	-0.66	-0.21	-0.21	-0.39
Washington Nominal Personal Income, Percent change							
September Higher Oil	8.58	11.76	4.42	6.53	3.92	7.49	6.34
August Preliminary	8.03	13.23	2.94	7.09	3.90	7.32	6.39
Difference	0.55	-1.47	1.48	-0.56	0.02	0.17	-0.05

*Based on NYMEX futures price for light, sweet crude oil, as of 9/9/05